

Company case

Thorntons: a journey to revitalise its brand

Thorntons is a household name chocolate brand and independent chocolate retailer in the UK with 228 stores and 186 franchise shops. Among them, 16 shops are cafés. It was established in 1911 and it now one of the best-known brands on Britain's high streets. It is listed on the London Stock Exchange. It was bought by Ferrero SpA in 2015 for £112 million. Unlike Cadburys that predominantly relies upon retailers for its distribution strategy, traditionally, Thorntons sells its product directly to consumers through its own or franchise shops, and increasingly more through its own online shop and third parties, such as supermarkets.

Thorntons has a number of different types of competitors, including national brands, such as Cadbury, Mars, Galaxy, Kit Kat, Snickers and Milky Bar, and also independent chocolate retailers, such as Hotel Chocolat, which can be considered as the closest and most immediate competition, as it has a similar business model of shops selling exclusively its own branded chocolate products. Hotel Chocolat opened its first shop in 2004, and has been experiencing fast growth. It has 100 shops, cafés and restaurants and is now competing directly with Thorntons in the high streets, shopping centres and malls. It is currently smaller

sells its products widely through supermarkets and discounted retailers. This has been a deliberate choice to overcome the over-capacity issue of its factory, built in more ambitious times. This decision to sell more through third-party retailers was made due to the difficulty of mail order, because of the product's fragility and freshness. This put Thorntons in direct competition with national brands such as Lindt at the premium level and Cadbury at the mass-market level. However, there was a worry that Thorntons failed to distinguish itself in the premium market and that its slogan – 'The Art of the Chocolatier' – had become vacuous. As noted by one industry observer, 'It's probably not the present you'd give to impress a girlfriend. You might give it to your mother for Mother's Day'. This expansion of distribution to supermarkets and other retailers has resulted in channel cannibalisation. As observed by an industry analyst at the time, 'the more you can get your Thorntons chocolate in your local Tesco or Sainsbury, the less you'll need to go to a Thorntons shop'. In addition, it undermined the premium and exclusive image of the brand. It was suggested that Thorntons' problem was caused by its failure to adapt to changing tastes towards darker, less sugary flavours.

in profitability prompted Thorntons to conduct a strategic review in 2011. One idea was to focus on British heritage and tradition, and an ultimate push toward international expansion. This idea was rejected. The result of the review was a decision to shift toward a more diversified distribution strategy and to close between 120 and 180 of its shops, with a continuous emphasis on selling through supermarkets and other retailers. It also wanted to reduce its over-confidence on seasonal events such as Christmas, Easter and Valentine's Day, to develop its year-round relevance by introducing new gift ranges for other more personal occasions such as birthdays, anniversaries and congratulations. Another major part of the new strategy was to

Channel strategy

Traditionally Thorntons' main growth strategy was expanding through opening new stores. Although the expansion helped the company to increase the turnover to £214.8 million in 2009, the operating profit decreased to only £7.94 million. Thorntons' sales are generally highly impacted by seasonality, with a significant percentage of sales (it is reported about 35 per cent) occurring during the weeks leading to Christmas, and about 10 per cent before Easter. This puts a great deal of pressure on the running of the many physical stores in the high streets or shopping centres. Besides selling directly through its own shops, Thorntons also

improve its store merchandising, displays and customer service. As its CEO, Jonathan Hart, said at the time, 'our goal is to refocus the business across all channels and seek to deliver industry competitive returns over the next three to five years'.

Competition from Hotel Chocolat

However, Thorntons faced some new challenges. The biggest one came from its closest competitor: Hotel Chocolat. The competition between the two has long been intense. For example, back in 2007, Thorntons' then top chocolate maker was forced to resign after being caught squashing truffles in one of Hotel Chocolat's stores. Unlike Thorntons' retrenching, Hotel Chocolat has been experiencing rapid growth over the recent years. One of the major marketing strategies of Hotel Chocolat is the focus on emotional experience. According to its CEO, 'it was aspirational. I was trying to come up with something that expressed the power that chocolate has to lift you out of your current mood and take you to a better place. It's an emotionally charged food product that people are buying for the taste and the way it makes them feel.' It wants to make it an emotional experience for people to shop for and eat chocolate, and make people feel good about eating it. To achieve this aspiration, its products need a high cocoa content, and the store needs to feel like a 'sanctuary' providing 'escapism' for customers. In terms of distribution strategy, Hotel Chocolat has also been careful and selective by selling through its own stores or selected premium

brand values. This distribution strategy aims to 'make people feel good about buying chocolate, so not in a commoditised way. . . . if they become too widely available there's a risk that could diminish', according to its CEO, Angus Thirlwell.

This strategy has paid off nicely for Hotel Chocolat. With the first shop being opened in 2004, in just over a decade Hotel Chocolat now has 103 shops as well as cafés and restaurants. And Hotel Chocolat has been much more profitable than Thorntons. For example, for the second half of 2014, Hotel Chocolat reported a £6.6 million pre-tax profit, beating Thorntons' £6.5 million, having just 81 stores at the time compared with Thorntons' 242 stores.

To the contrary, Thorntons' products have been widely available through mass distribution channels. According to some critics, many of its stores appear more akin to a discounter and a place for bargain hunting, due to the various sales promotions and discounts it offers. Hence, its own shops offer no obvious added value for shoppers as compared to buying its products in supermarkets. This has resulted in a positioning problem for Thorntons' products: appearing mass-market but with premium pricing.

New era

In June 2015, Italian company Ferrero SpA, the second-largest chocolate and confectionery company in the world, bought Thorntons for £112 million with the aim to broaden its roots and to continue its previous success in the UK market. Ferrero SpA owns some iconic brands, such as Ferrero Rocher, Nutella, Kinder

Eggs, Tic Tac and Raffaello. The deal enables Ferrero to become the fourth-largest chocolate brand in the UK with a near 7 per cent UK market share. However, Ferrero had some important decisions to make regarding Thorntons' future strategy. The key one was positioning. According to some analysts, it was a decision between continuing the existing strategy (i.e., reducing the number of shops with stronger focus on wholesale sales through other retailers) or trying to move it more upmarket. Or in the words of an independent analyst, it was a choice between 'Motel Chocolate' or Hotel Chocolat.

Meanwhile the whole industry is facing some thorny issues. The biggest threat is the shrinking of the market size in the UK, particularly over the recent years. The market size in terms of sales monetary amount has stagnated with some decrease in amount of chocolate being sold. Due to growing awareness of the health concerns associated with eating sugar and rising child obesity, people are eating less chocolate, particularly those with more sugar. This has helped boost the sales of premium dark chocolate, such as those made by Lindt Excellence and Hotel Chocolat. At the same time, the costs of core ingredients of chocolate (e.g., cocoa and palm oil) have increased, which put manufacturers under pressure to either cut costs or increase prices. This has an important implication for the targeting and positioning of the chocolate brands: targeting the hungry impulse buyers or more health-conscious buyers who buy chocolates as luxury treats.

Effort to revitalise the brand

In 2016, a year after acquiring Thorntons, Ferrero decided to invest £4.9 million in media spend, including its first TV advert for six years to promote the relaunch of Thorntons. The purpose of this campaign was to change people's perception of the brand being too 'commoditised' and characterised by 'frequent deep-cut promotions', to build an emotional connection with customers through a refocus on craftsmanship and to appeal to younger consumers. It also invested in experiential marketing with the hope of building stronger brand loyalty by means of free sampling of Thorntons brands and other Ferrero brands in the run-up to Christmas 2016.

Meanwhile according to some analysts, because Thorntons has too many stores in the wrong locations, and it is expensive to run and maintain them, Thorntons has to slim down its estate and needs to consolidate its wholesale arm by focusing on building the supermarket channel. Meanwhile online sales, particularly for gift purchases, have increased both for Thorntons and its closest rival, Hotel Chocolat.

Questions for discussion

- 1 What are the distribution channel options available for Thorntons to sell its products? What are their pros and cons from both the company and customers' perspectives?
- 2 How do you evaluate Thorntons' decision to sell its products through intermediary retailers, such as supermarkets and discount stores, meanwhile closing down own stores?
- 3 How do you see the importance of direct online selling for Thorntons' future growth?
- 4 Considering the new strategic investment in branding by its parent company, what channel strategies you would suggest to Thorntons, and why?

Source: Kotler, P. *et al.* (2020) *Principles of marketing*. Eighth European Edition. Harlow ; Pearson.